



The Real Estate ANALYST

MARCH 31
1952

Volume XXI

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies....Survey....Forecast

Number 14

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

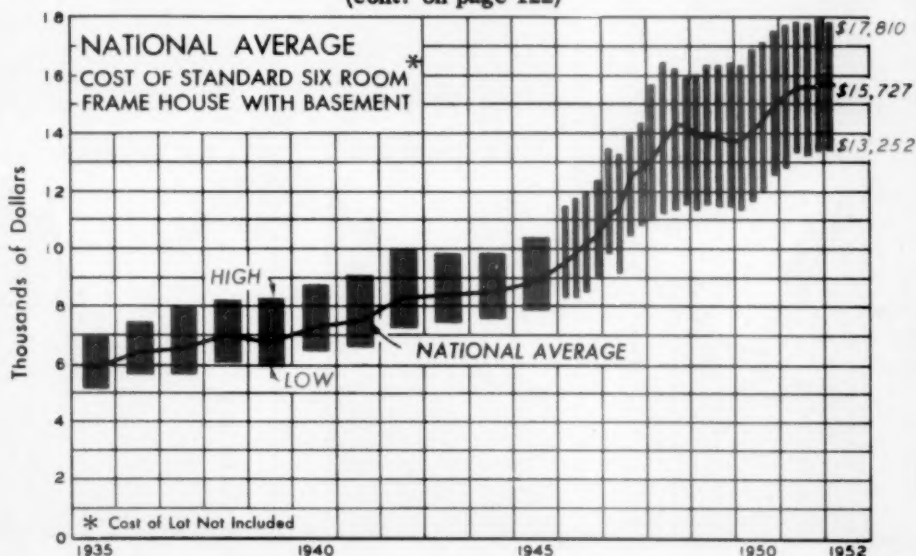
CONSTRUCTION COSTS DIP TEMPORARILY

BARELY discernible on the chart below is a slight decline in residential construction costs. The line on this chart shows the average cost of building our 6-room frame house in major cities of the United States. The vertical bars show the spread between the city where the costs were highest and the city where the costs were lowest.

On the following pages is shown the cost of building our 6-room frame house in 52 major cities from 1935 through the first quarter of 1952.

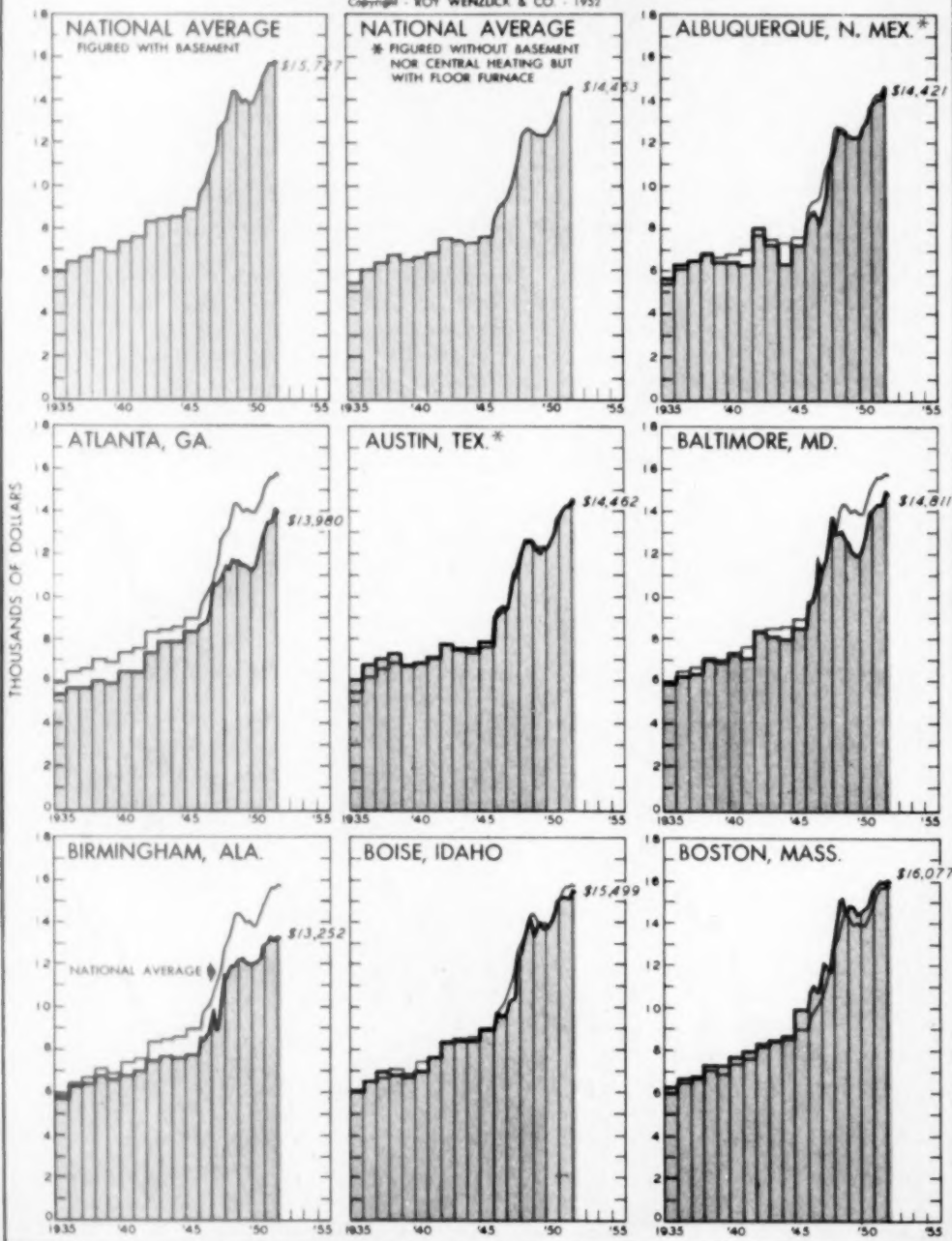
As has been the case for several years, the cost in Trenton, New Jersey, is higher than in any other cities we survey, while Birmingham, Alabama, enjoys the lowest cost level. Further study of the charts will reveal other interesting comparisons, but you should remember that those charts marked with an asterisk (*) present the cost of the house without basement.

During the remainder of 1952 residential builders and residential construction;
(cont. on page 122)



TOTAL CONSTRUCTION COSTS OF A STANDARD SIX ROOM FRAME HOUSE BY CITIES

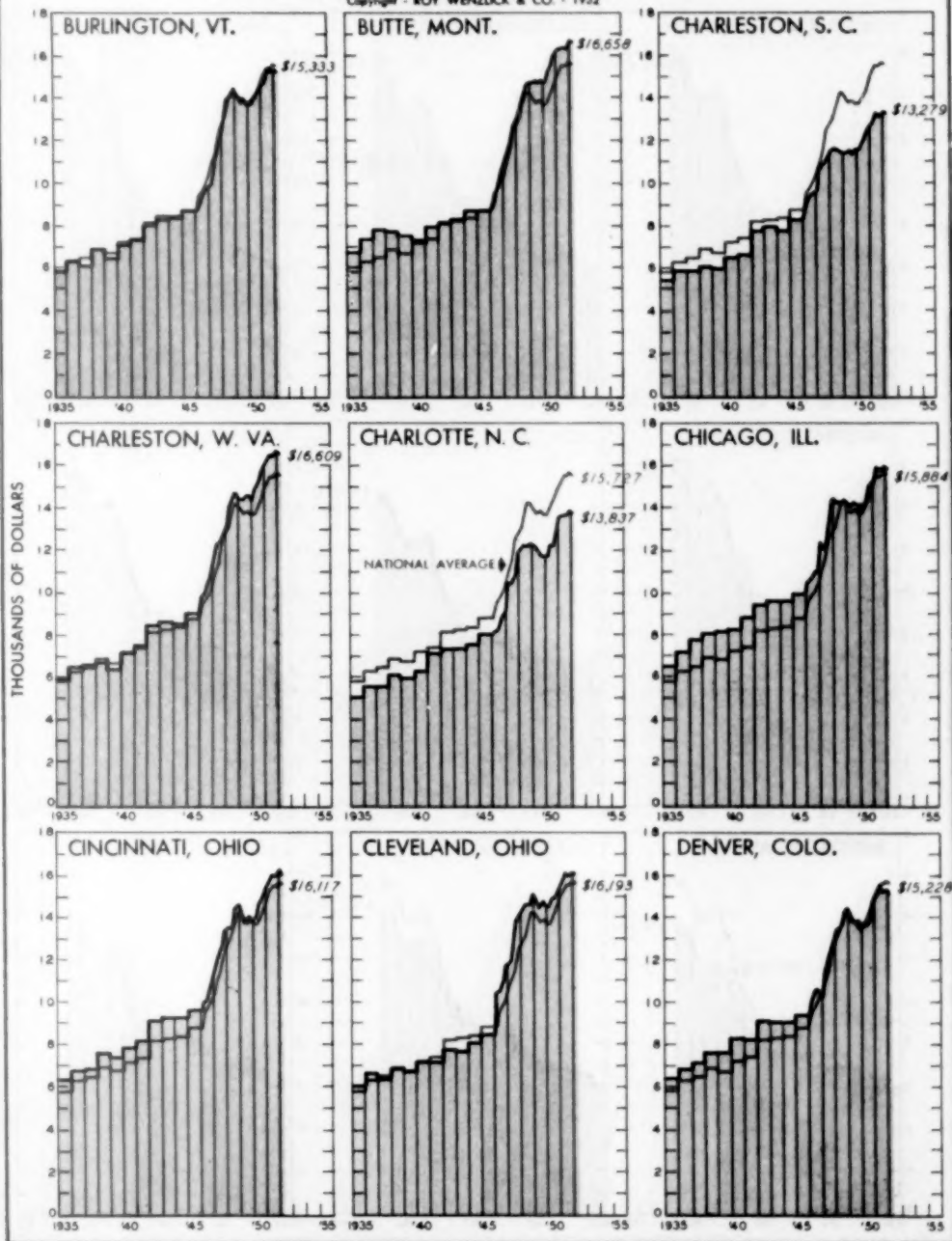
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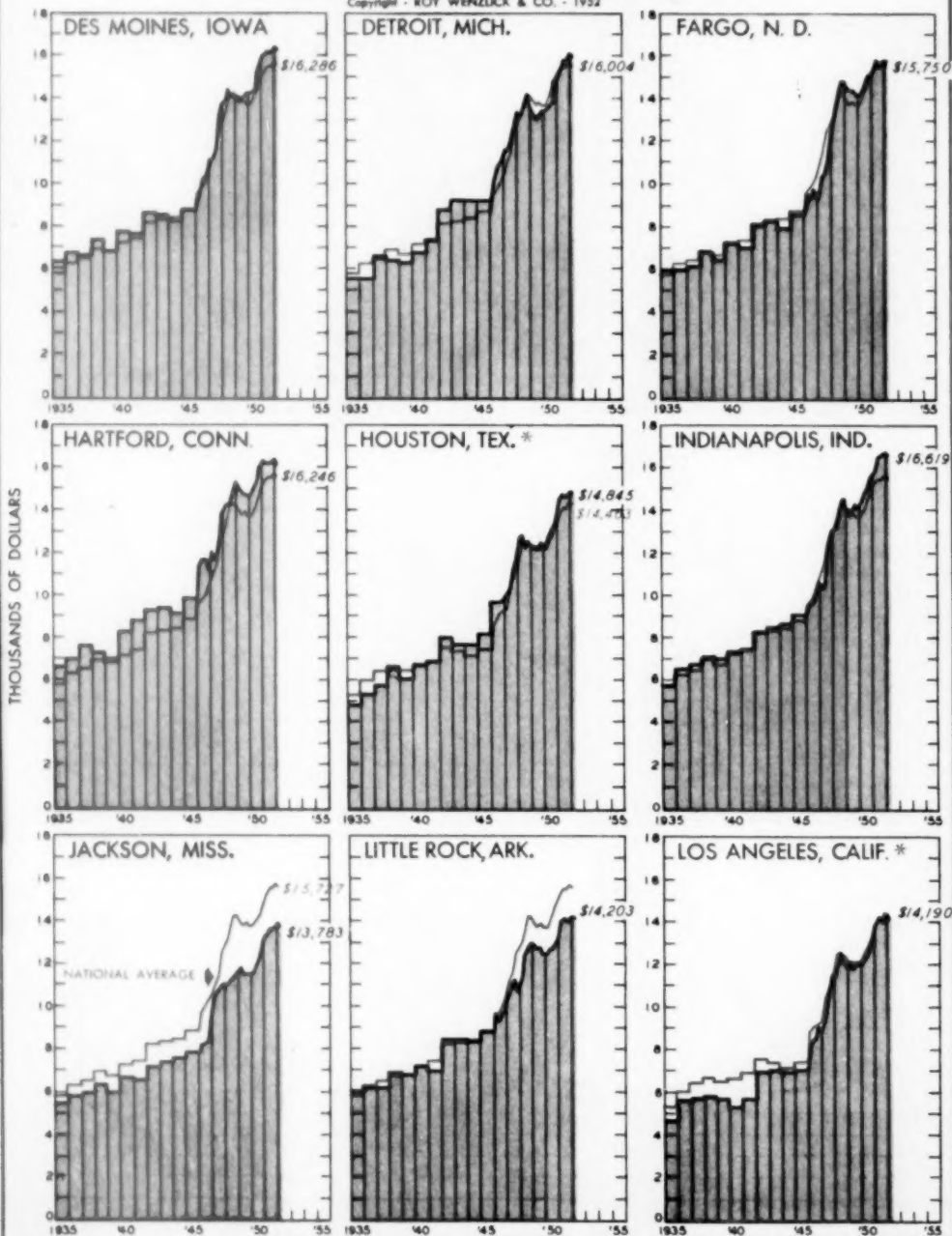
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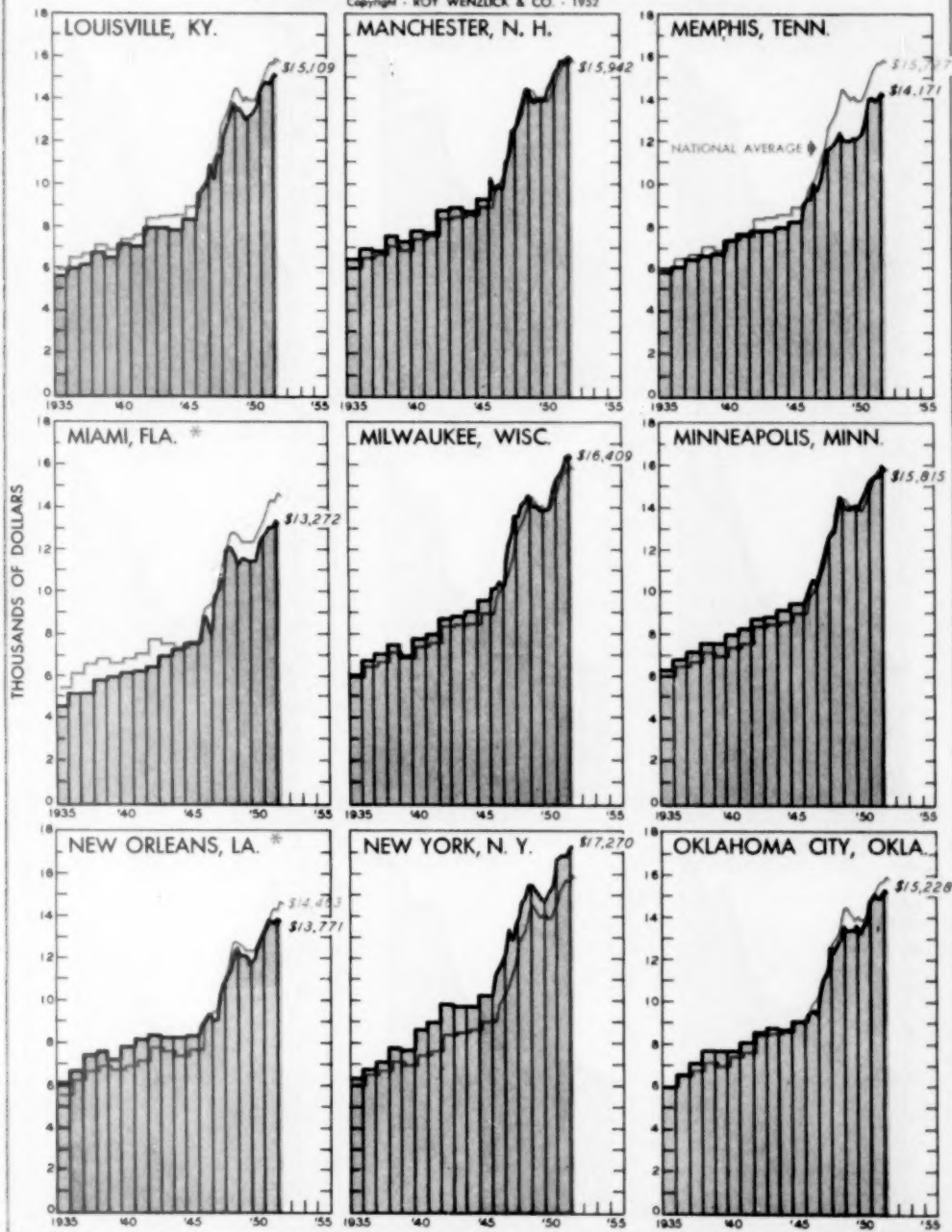
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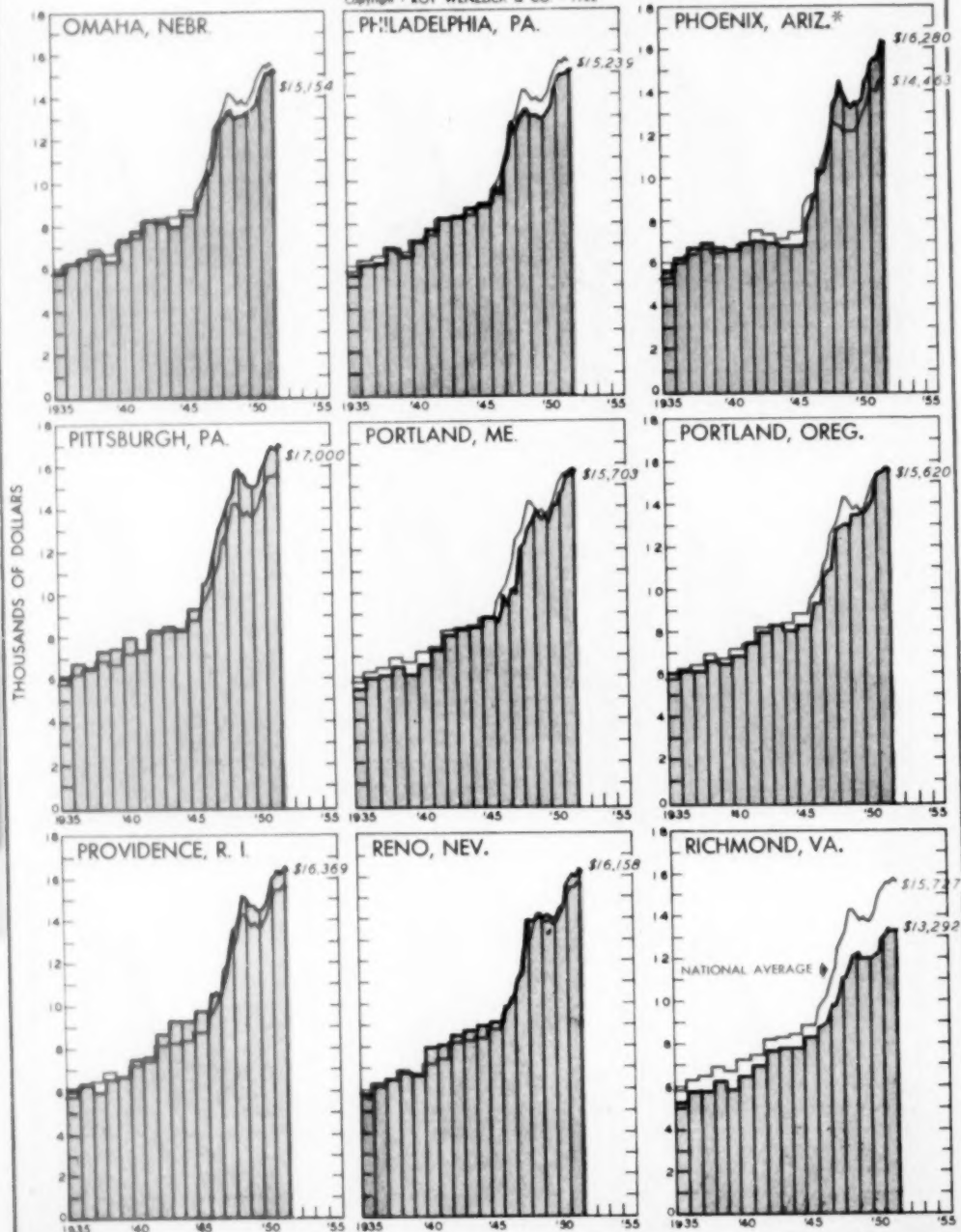
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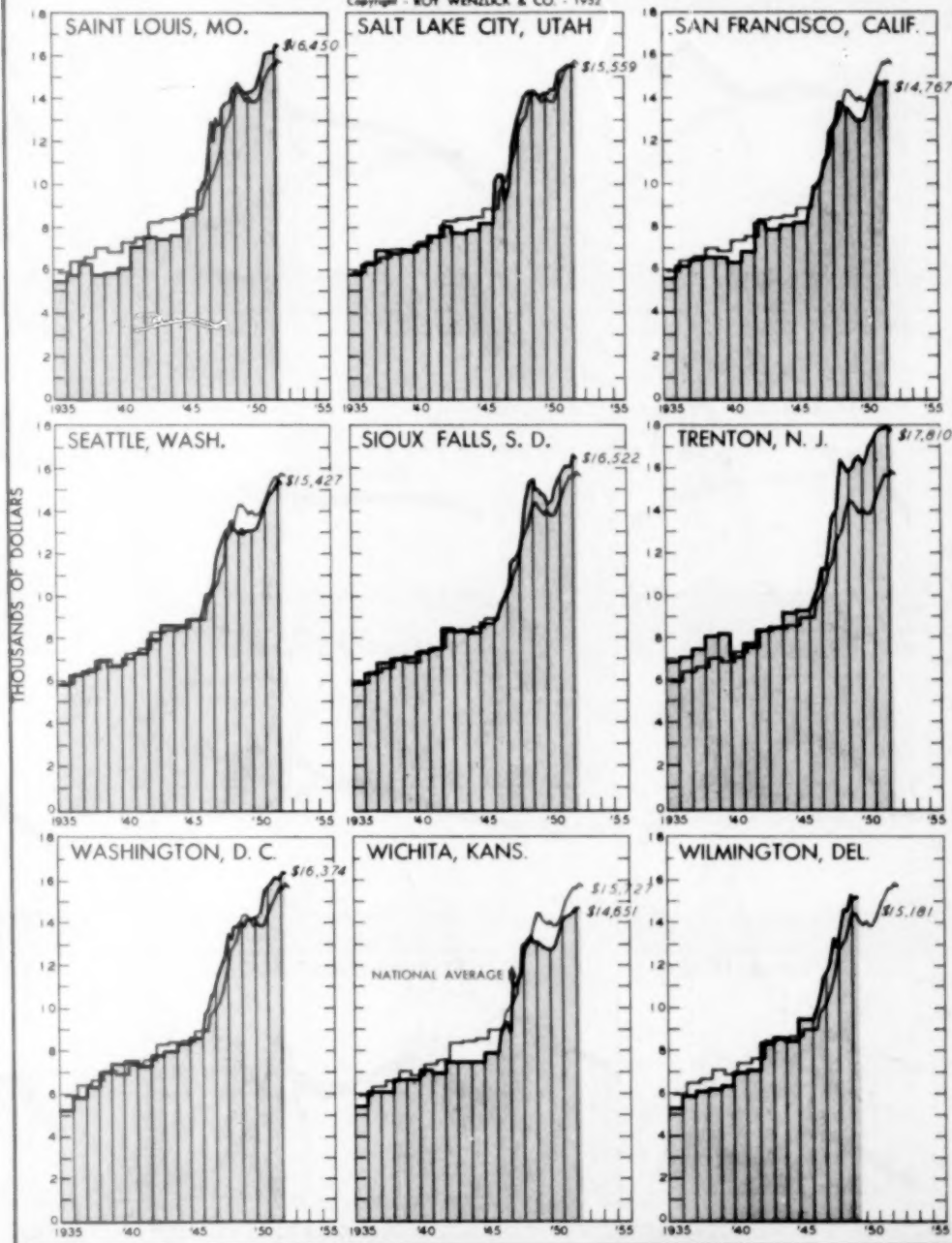
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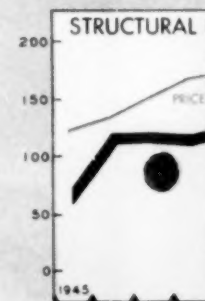
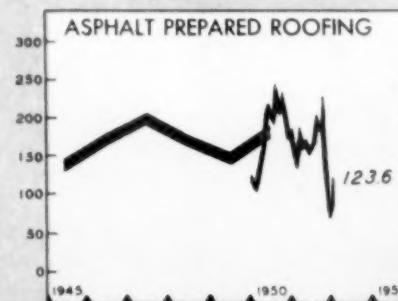
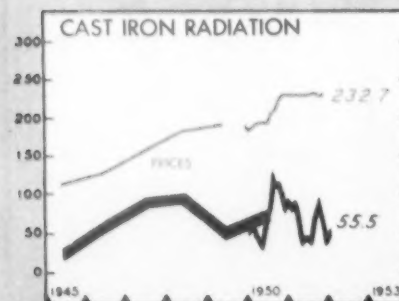
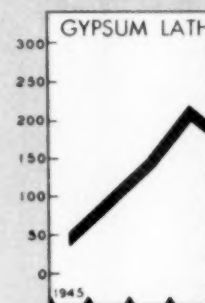
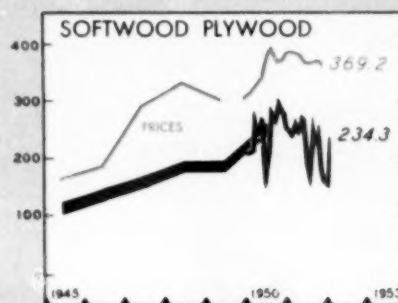
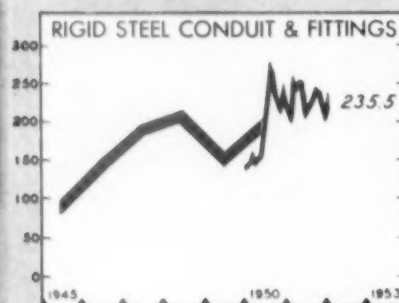
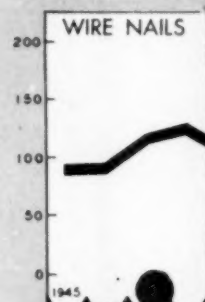
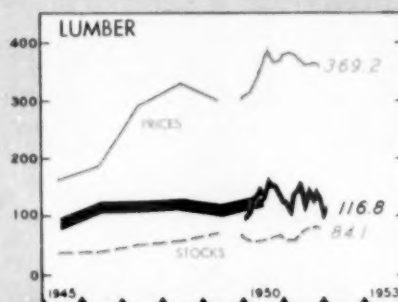
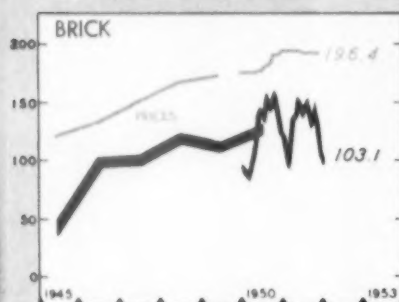
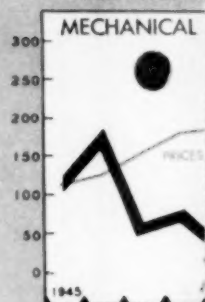
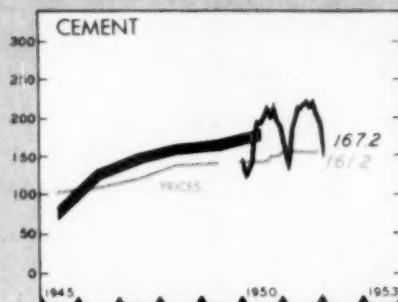
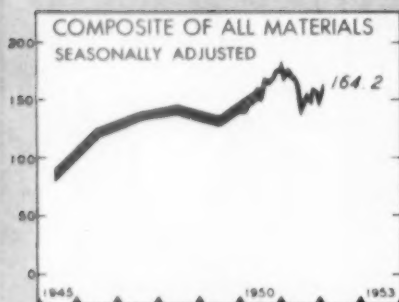
TOTAL CONSTRUCTION COSTS OF A STANDARD SIX ROOM FRAME HOUSE BY CITIES

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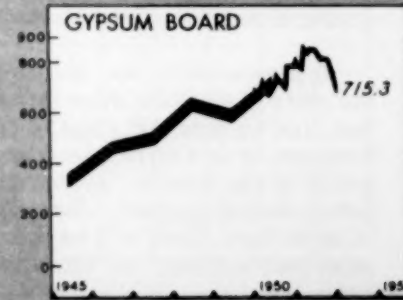
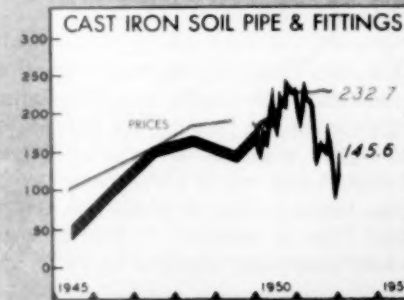
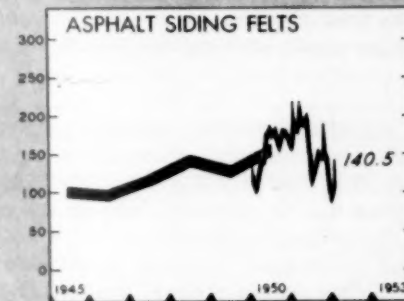
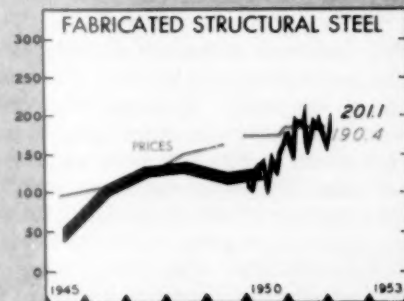
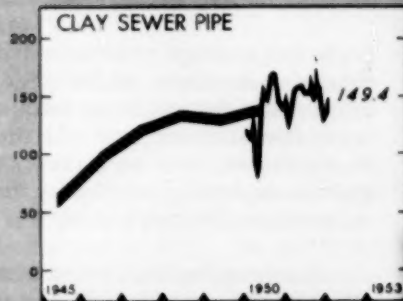
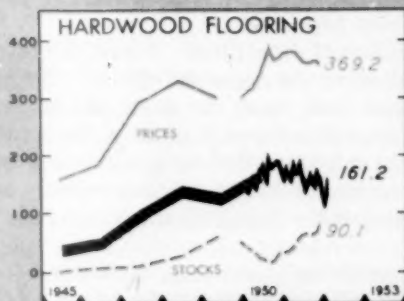
Production Of B

INDEX-1939=100



Building Materials

100 - UNADJUSTED



CONSTRUCTION COSTS DIP TEMPORARILY

(cont. from page 113)

costs will undergo pressures from different directions. Some will tend toward driving costs down, while others will have the opposite effect. The net result may be that the end of the year will see costs about the same and selling prices lower than they are now. At first glance this doesn't make much sense. Furthermore, the housing market is in such a state that we could easily be wrong. This is especially true since the government has so wholeheartedly embraced its new-found "responsibility" of regulating the supply of and demand for housing.

Assuming that the present arrangements the government has made for material allocations, credit terms, and the FHA-VA interest rates are not altered substantially, the following speculations seem reasonable:

1. Labor costs: Undoubtedly the quickest and most direct change to be felt will be a rise in hourly rates. The government has already given its blessing and across the board increases can be expected. To counteract this rise in hourly rates, most builders can expect an increase in output per man hour. Although there will be on-site jobs for about 2,000,000 construction workers during most of this year, the Bureau of Labor Statistics estimates that there will be about 400,000 fewer on-site jobs than were available in 1951. This will naturally bring on the release of many marginal and unproductive workers, and the over-all output per man hour will benefit accordingly. This should be particularly true of painters, carpenters, lathers, plasterers, and bricklayers, since the greater proportion of these tradesmen are employed in residential and other light construction. Net result should be an over-all leveling off of labor costs, with some areas showing increases and other areas showing decreases. Changes in either direction will be moderate.

2. Building material prices: On the whole, building material prices are expected to change very little. There will be some slight changes both up and down during the year, but inventories, production, and probable demand add up to little net change by the end of the year. If we had to guess one way or the other, we would figure on a small decrease. Individual materials present a somewhat different picture. Despite the fact that the Bureau of Labor Statistics wholesale lumber price index is slowly regaining its recent losses, we feel that lumber prices are particularly vulnerable. Any big price break is more likely in lumber products than in any other major building material.

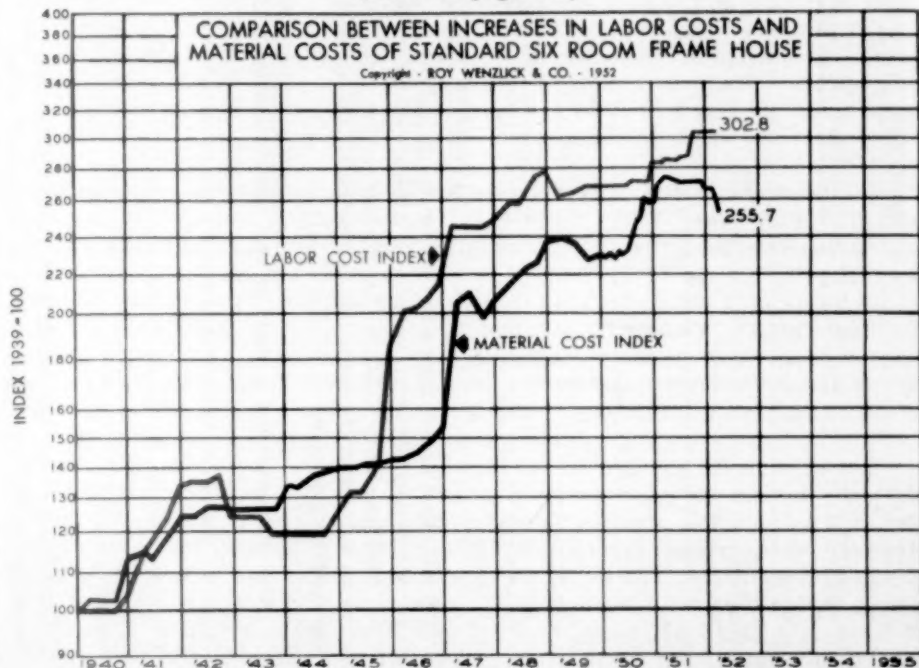
If it were not for Mr. Murray and his wage demands, we would expect a drop in the price of steel and other ferrous products. The supply is getting better every day, and we hear that some of the warehouses are beating the bushes for sales. However, it is a virtual certainty that higher wages at the mill will mean higher prices at the counter, and we do not expect any worth while reductions in steel prices during the year. Nevertheless, lower prices in steel are coming. One of these days there will be more steel than is needed. It will be sooner than most people think, but while there will be plenty of steel in 1952, there will

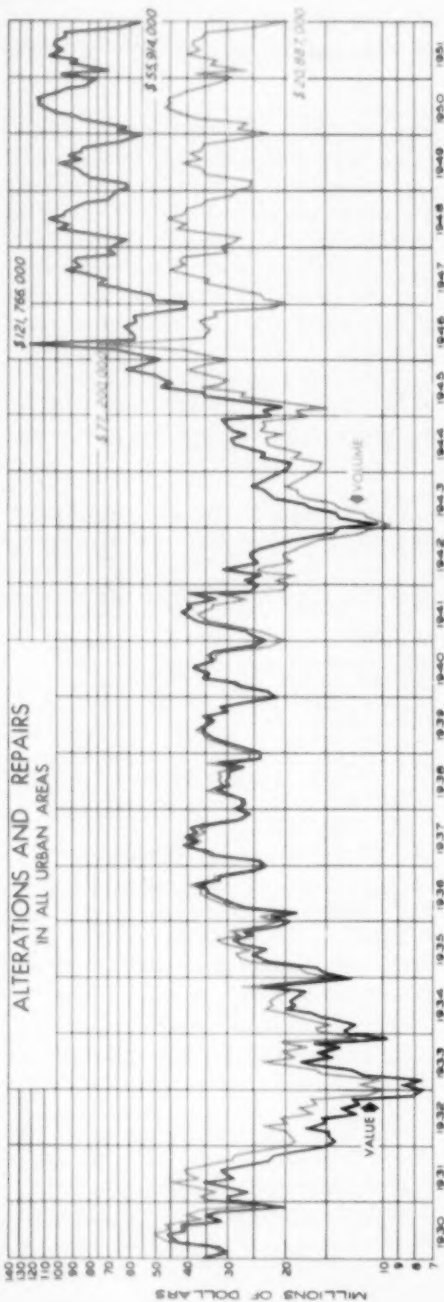
not be enough of a surplus to cause a real price break. Any decline in steel prices will be toward the end of the year, and will come after the impending price boost.

On pages 120 and 121 are charts showing the production indexes of major building material items. In some instances the price and inventory indexes are also shown. The charts show monthly figures from 1950 on, and these figures, which are not seasonally adjusted, show an erratic course. However, in most instances production is at a high level and prices are steady. The total demand for building materials will not be quite so heavy in 1952 as in 1951. If no other factors changed, this slackening demand would cause prices to drop. On the other hand, building material manufacturers and dealers are for the most part very much aware of the danger of potential price drops. They are much more wary now than they were a year ago. Therefore, we believe that there will be comparatively little inventory building either at the dealer or manufacturer level. This factor alone will tend to slow any price drops that develop later on in the year.

In our opinion, the materials that are most vulnerable to price drops are those used mostly in residential and other light construction. In addition to lumber products, these materials include certain types of plumbing, heating and electrical materials, some painting items and lightweight fiber boards and roofing.

(cont. on page 128)





ALTERATIONS AND REPAIRS

THE chart above shows the dollar value and the estimated physical volume of alterations and repairs from 1930 to the present. The line showing volume is the value line corrected for changing construction costs.

The only basis for a chart of this sort is a compilation of building permits, with the difficulty that a large number of alterations and repairs are of insufficient size individually to require a building permit. For this reason, the dollar figures shown by the chart are too low. The percentage fluctuations are approximately correct.

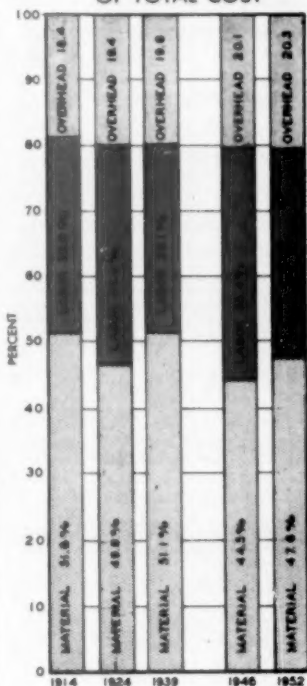
Total alteration and repair work amounted to about the same in 1951 as it did in 1949, both years being

somewhat below the 1950 level. It seems to us that for the next few years this type of business should be relatively good. Larger families are going to need more room, and not everybody is going to be able to afford a new home. Our March Trends Bulletin will give you some idea of the tremendous number of youngsters that have been born in the last few years.

In those areas where the residential building boom is quieting down, some of the more aggressive and versatile operators are going to be able to switch over to repair and alteration work. It's not as "clean" as new work and has a different set of headaches. It's also more competitive, especially on smaller jobs. But it can be a money-maker and it's a good way to hold a crew together while awaiting the next boom.

PERCENTAGE RELATIONSHIPS IN CONSTRUCTION COSTS OF STANDARD SIX ROOM FRAME HOUSE

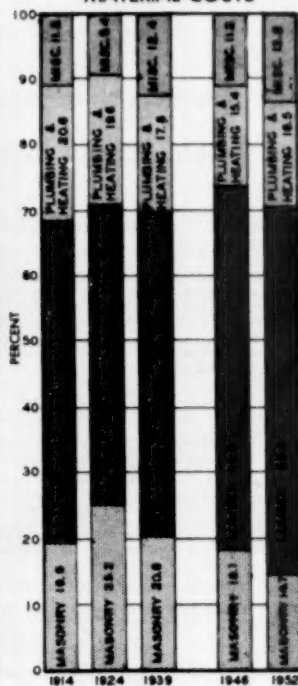
MATERIAL LABOR & OVERHEAD AS A % OF TOTAL COST



MATERIAL, LABOR & OVERHEAD AS A PERCENTAGE OF TOTAL COST

Year	Material	Labor	Overhead
1914	51.8	30.0	18.4
1924	46.8	33.8	19.4
1939	51.1	29.1	19.6
1946	44.5	35.4	20.1
1952	47.6	32.1	20.3

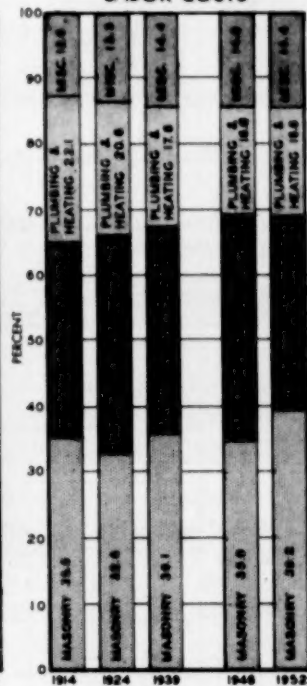
MATERIAL BY GROUPS AS A % OF TOTAL MATERIAL COSTS



MATERIAL BY GROUPS AS A PERCENTAGE OF TOTAL MATERIAL COSTS

Year	A	B	C	D
1914	19.6	48.8	20.6	11.2
1924	25.2	45.8	19.6	9.4
1939	20.8	49.0	17.8	12.4
1946	18.1	55.3	15.4	11.2
1952	14.7	55.6	16.5	13.2

LABOR BY GROUPS AS A % OF TOTAL LABOR COSTS



LABOR BY GROUPS AS A PERCENTAGE OF TOTAL LABOR COSTS

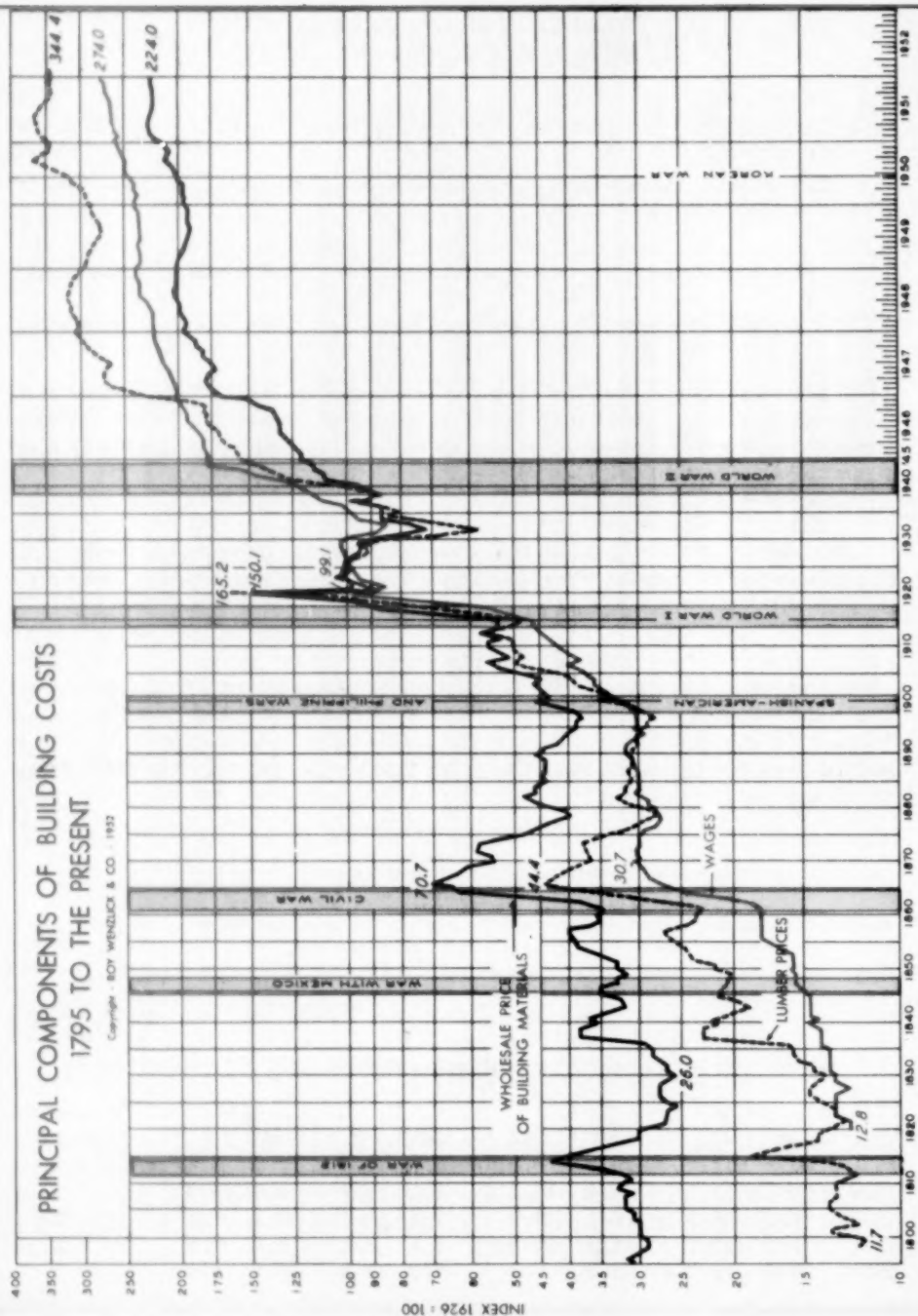
Year	A	B	C	D
1914	35.5	29.8	22.1	12.6
1924	32.8	33.3	20.6	13.3
1939	36.1	31.7	17.8	14.4
1946	35.0	34.2	16.8	14.0
1952	39.2	29.8	16.6	14.4

MATERIAL, LABOR, OVERHEAD & PROFIT AS % OF TOTAL COST

Year	A		B		C		D		Overhead & profit
	M	L	M	L	M	L	M	L	
1914	10.1	10.6	25.1	8.9	10.6	6.6	5.8	3.8	18.5
1924	11.8	11.1	21.4	11.2	9.2	6.9	4.4	4.5	19.5
1939	10.6	10.5	25.1	9.2	9.1	5.2	6.3	4.2	19.8
1946	8.1	12.4	24.6	12.1	6.8	5.9	5.0	5.0	20.1
1952	7.0	12.6	26.5	9.5	7.9	5.3	6.3	4.6	20.3

PRINCIPAL COMPONENTS OF BUILDING COSTS 1795 TO THE PRESENT

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DOLLAR VALUE OF FIRE LOSSES AT NEW HIGH

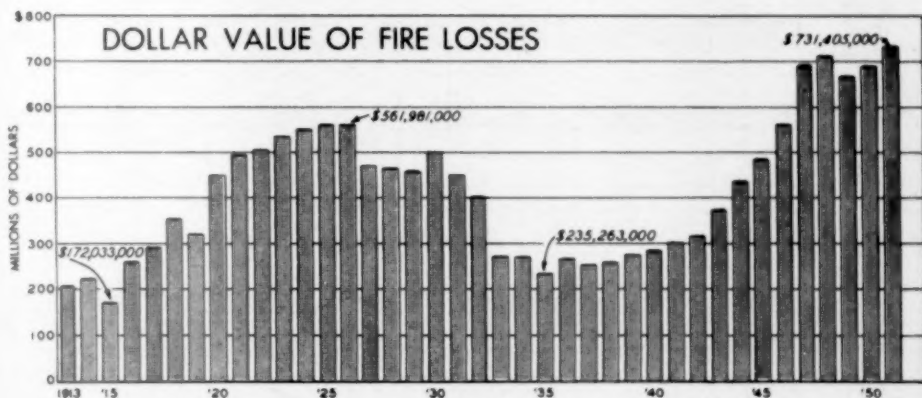
ACCORDING to the National Board of Fire Underwriters, fire losses in the United States reached an all-time peak during 1951. Fire losses last year amounted to \$731,405,000. In addition to being somewhat shocked by this enormous (nearly three-quarter billion dollars) loss, there are two important points we should consider:

1. How can we help prevent fire losses to our clients and to ourselves?
2. How can we protect our clients and ourselves in the event of a fire loss?

The best answer to the first question is to vigorously eliminate or minimize the potential causes of fires on the premises in which we are interested. Almost one-third of the fires result from causes that can usually be corrected by alert property management (misuse of electricity, overheated or defective heating equipment, rubbish and litter, etc.).

Although it may seem a trifle farfetched, tenants should also be educated to practice fire prevention. A well-thought-out, simple program can be carried through with very little trouble or expense.

The answer to the second question is easier to give but harder to follow. Simply buy more fire insurance. We haven't the slightest interest in any of the fire insurance companies, but we are interested in you and your clients, and our guess is that most combustible buildings in the country are underinsured. Some time just sit down and figure out how much a big fire would cost you, and don't forget the contents of the building.



CONSTRUCTION COSTS DIP TEMPORARILY

(cont. from page 123)

The prices of clay products are less likely to drop significantly, and the widespread demand for cement should hold its price steady for some time to come.

We've already commented on steel prices, but such a small percentage of steel output goes into light construction that the demand from this field has relatively little effect on prices. As we have already intimated, the course of construction steel will be dictated more by other influences than it will be by what happens to home building.

As the year runs out, homes are going to be harder to sell. The pressure is definitely off, and sales are going to be more and more of a problem. We fully expect increased efforts to completely obliterate Regulation X, and if **this** is done, some pickup in sales will result, but the help will be temporary. With sales lagging, many builders are going to cut their profit margins, and by the end of the year we will probably see more empty homes and dropping prices.

The supply and demand relationship is not the same in all sections of the country, and as we pointed out in the Trends Bulletin, there are some areas that are not "built up." We are trying to piece together various bits of information in order to give you some indication of which areas still seem to be undersupplied with housing. The data are fragmentary and difficult to assemble, but if we are successful, we will publish the results of our research (on major metropolitan areas) in an early Analyst report.